

OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY

REPORT ON FINANCIAL STATEMENTS
(With required supplementary information)

YEAR ENDED JUNE 30, 2004

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Floyd L. Costerisan
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Outlook Academy, Strict Discipline Academy
Allegan, Michigan

August 13, 2004

We have audited the accompanying financial statements of the governmental activities and the major fund of Outlook Academy, Strict Discipline Academy, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Outlook Academy, Strict Discipline Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund Outlook Academy, Strict Discipline Academy as of June 30, 2004 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2004 on our consideration of Outlook Academy, Strict Discipline Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through ix and 15, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Outlook Academy's annual financial report presents our discussion and analysis of the public school Academy's financial performance during the fiscal year that ended on June 30, 2004. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. In the future, comparative analysis will be provided when prior year information becomes available.

Financial Highlights

- The assets for the District exceeded its liabilities at the close of the most recent fiscal year by \$123,277 (net assets). All of this amount represents *unrestricted net assets* and may be used to meet the District's ongoing obligations for general District programs.
- Revenues decreased by 6.1 percent over the prior year to \$365,606. Blended enrollment used for state aid purposes was 19.5, an increase of 7.5 FTE or 62.5% over the prior year. Federal revenue sources decreased from the prior year primarily because of the reduction in the amount awarded for the federal start-up grant.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy's budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

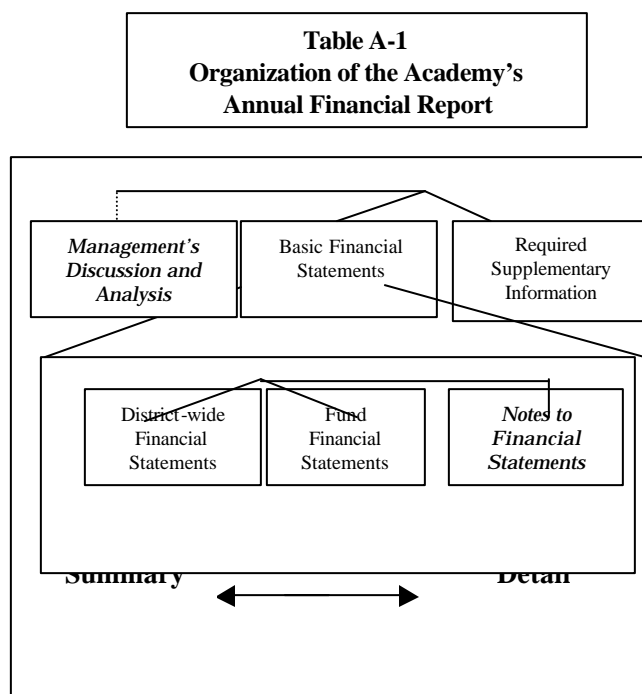


Table A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Table A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary (the Academy does not have fiduciary funds)
Required financial statements	* Statement of net assets	* Balance sheet
	* Statement of activities	* Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy’s net assets and how they have changed. Net assets – the difference between the Academy’s assets and liabilities, are one way to measure the Academy’s financial health or position.

- Over time, increases or decreases in the Academy’s net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy’s enrollment, the availability of sufficient funds, and its ability to afford a large enough facility.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities – The Academy's basic services are included in the general fund, such as regular education and administration. State foundation aid and federal sources finance most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds – not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law.
- The Academy could establish other funds to control and manage money for particular purposes (like repaying long-term debts) or to show that it is properly using certain revenues (like food service).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets increased from the prior year by \$29,243 increasing the fund balance to \$123,227. See Table A – 3.

The total revenues decreased by 6.1% to \$365,606.

The total cost of instruction increased by 48.6% to \$216,274, however total support service expenditures decreased 23.6% to \$120,089. Overall, total expenditures increased by 14.4% or \$42,366 to \$336,363.

Figure A-3
Academy Net Assets

Current assets:	
Cash and cash equivalents	\$ 113,056
Due from other governmental units	34,370
Total assets	\$ 147,426
Current liabilities:	
Accounts payable	4,386
Accrued salaries and related items	18,422
Due to other governmental units	1,391
Total liabilities	\$ 24,199
Net assets:	
Unrestricted	\$ 123,227

Figure A-4
Changes in Academy's Net Assets

Revenues:	
Program revenues:	
Federal and state categorical grants	\$ 145,096
Charges for services	1,025
General revenues:	
Family court	79,180
State sources	128,354
Other	11,951
Total revenues	365,606
Expenses:	
Instruction	216,274
Support services	120,089
Total expenses	336,363
Change in net assets	\$ 29,243

Financial analysis of the Academy's funds

As the Academy completed the year, its governmental fund reported a fund balance of \$123,227, an increase of \$29,243 over last year's total of \$93,984. This represents approximately six months of the 2004-05 total general fund expenditures.

General fund budgetary highlights

Over the course of the year, the Academy amended the annual operating budget three times, most recently in June of 2004. Total general fund revenues decreased slightly, 2.4%, from the original to the final budget. Total expenditures also decreased slightly, .2%. These variances are minor and represent a fluctuation in student enrollment.

Capital assets and debt administration

Capital assets

At year-end, the Academy reported no capital assets. Capital assets could consist of land, buildings and improvements, and equipment and furniture.

Long-term debt

At year-end the Academy had no long-term debt.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could affect its financial health in the future.

The continual sluggish economy in the State of Michigan has placed the 2004-2005 foundation allowance in jeopardy of being prorated. The foundation allowance represents 43% of the total Academy revenue.

Student enrollment continues to be an important issue for the Academy. The blended count rose from 12 in the first year of operation to 19.5 this year. The count will need to continue to rise and/or additional revenue streams will be needed.

Requests for information

This financial report is designed to provide our students, parents, and the community with a general overview of the Academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact Mike Hagerty, Director of Finance and Operations, Allegan County ISD, 310 Thomas St., Allegan, MI 49010.

**THE OUTLOOK ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2004**

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 113,056
Due from other governmental units	<u>34,370</u>
 TOTAL CURRENT ASSETS	 <u><u>\$ 147,426</u></u>
 LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 4,386
Accrued salaries and related items	18,422
Due to other governmental unit	<u>1,391</u>
 TOTAL CURRENT LIABILITIES	 24,199
 NET ASSETS:	
Unrestricted	 <u>123,227</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 147,426</u></u>

**THE OUTLOOK ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 216,274	\$	\$ 112,655	\$ (103,619)
Support services	120,089	1,025	32,441	(86,623)
Total governmental activities	<u>\$ 336,363</u>	<u>\$ 1,025</u>	<u>\$ 145,096</u>	<u>(190,242)</u>
General revenues:				
Family court				79,180
State sources				128,354
Other				<u>11,951</u>
Total general revenues				<u>219,485</u>
CHANGE IN NET ASSETS				29,243
NET ASSETS, beginning of year				<u>93,984</u>
NET ASSETS, end of year				<u>\$ 123,227</u>

**THE OUTLOOK ACADEMY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2004**

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 113,056
Due from other governmental units	<u>34,370</u>
TOTAL CURRENT ASSETS	<u>\$ 147,426</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 4,386
Accrued salaries and related items	18,422
Due to other governmental unit	<u>1,391</u>
TOTAL CURRENT LIABILITIES	24,199

NET ASSETS:

Unreserved - undesignated	<u>123,227</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 147,426</u>

**THE OUTLOOK ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2004**

REVENUES:

Local sources:

Family court revenue	\$ 79,180
Other local revenue	<u>12,976</u>

Total local sources	92,156
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State sources	134,386
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Federal sources	<u>139,064</u>
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Total revenues	<u>365,606</u>
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EXPENDITURES:

Instruction:

Basic programs	216,274
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Support services:

General administration	18,122
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School administration	8,579
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Business	13,819
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Operation and maintenance	45,633
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Transportation	<u>33,936</u>
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Total expenditures	<u>336,363</u>
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NET CHANGE IN FUND BALANCE	29,243
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FUND BALANCE, beginning of year	<u>93,984</u>
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FUND BALANCE, end of year	<u><u>\$ 123,227</u></u>
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**THE OUTLOOK ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004**

Net change in fund balance total governmental fund	\$ 29,243
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There are no reconciling items for the year ended June 30, 2004.

Change in net assets of governmental activities	<u>\$ 29,243</u>
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OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Outlook Academy, Strict Discipline Academy (the Academy) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Adoption of New Accounting Standards

During the fiscal period 2004, the Academy adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, issued June 1999; GASB Statement 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, an amendment to GASB Statement No. 21 and No. 34, issued June 2001, and in GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. These statements require the District to prepare a Management's Discussion and Analysis, government-wide financial statements on an accrual basis, and make some changes to the footnotes.

There was no restatement of net assets due to the effects of implementation of GASB Statement No. 34.

B. Reporting Entity

The Academy was incorporated July 3, 2002 for the purposes of operating as a public school strict discipline academy in the State of Michigan pursuant to Sections 1311*b* to 1311*l* of the Revised School Code, being MCL 380.1311*b* to 380.1311*l* (the "Code"). The Academy, including all activities incident to its purposes, shall at all times be conducted so as to be a governmental entity pursuant to Section 115 of the United States Internal Revenue Code ("IRC") or any successor law. Allegan County Intermediate School District is the authorizing body for the Academy and has contracted with the Academy to charter a public school academy for a period of three years. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy, property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

The Academy has followed the guidelines of the Governmental Accounting Standards Board Statements No. 14 and No. 39 and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the Academy's financial statements only.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government–Wide and Fund Financial Statements (Continued)

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenues) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Major individual governmental funds are reported as separate columns in the fund financial statements.

OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Government–Wide and Fund Financial Statements (Concluded)

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district’s expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy’s primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

D. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

**OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)
State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2004, the foundation allowance was based on pupil membership counts taken in February and September of 2003.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2003 to August 2004. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

E. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit..

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Other Accounting Policies (continued)

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources." The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

3. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. An annual appropriated budget is adopted for the general fund. All annual appropriations lapse at fiscal year end.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Administrator submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

Cash is held in the name of the Academy in the general fund.

Deposits

At year-end, the carrying amount of the Academy's deposits were \$113,056. The bank balance was \$119,232 of which \$100,000 was covered by federal depository insurance and \$19,232 was uninsured and uncollateralized. The difference in the bank balance and the District's carrying amount consisted of \$6,176 of outstanding checks, net of outstanding deposits.

The Academy places its deposits with high quality financial institutions. Although such deposits may exceed federally insured limits, from time to time, they are, in the opinion of the Academy, subject to minimal risk.

Investments

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Academy or its agent in the Academy's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Academy's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Academy's name.

At June 30, 2004, the Academy had no category 1, 2, or 3 investments.

NOTE 4 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Plan Description - The Academy contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

OUTLOOK ACADEMY, STRICT DISCIPLINE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Concluded)

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2004 were 12.99% of payroll through September 30, 2004, effective October 1, 2002. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2004 and 2003, were approximately \$18,512 and \$10,059, respectively, equal to the required contribution for the year.

The Academy is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Postemployment Benefits - Under the MPSERS' Act, all retirees have the option of continuing health, dental, and vision coverage. These benefits are not included in the pension benefit obligation referred to above.

NOTE 5 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 6 – AUTHORIZING BODY

Allegan County Intermediate School District (ACISD) is the authorizing body and fiscal agent. The term of the agreement expires June 30, 2005. The Academy has agreed to pay ACISD 3% of its school aid payments as an administrative fee.

REQUIRED SUPPLEMENTARY INFORMATION

**THE OUTLOOK ACADEMY
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2004**

	Original Budget	Final Budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources:				
Family court revenue	\$ 143,741	\$ 82,210	\$ 79,180	\$ (3,030)
Other local revenue		71,533	12,976	(58,557)
Total local sources	143,741	153,743	92,156	(61,587)
State sources	129,980	131,665	134,386	2,721
Federal sources	100,576	95,687	139,064	43,377
Total revenues	374,297	381,095	365,606	(15,489)
EXPENDITURES:				
Instruction:				
Basic programs	157,852	162,374	216,274	(53,900)
Support services:				
Pupil		34,966		34,966
Instruction		33,152		33,152
General administration	11,500	14,177	18,122	(3,945)
School administration	27,300	3,444	8,579	(5,135)
Business	11,980	16,784	13,819	2,965
Operation and maintenance	39,627	45,170	45,633	(463)
Transportation	57,600	34,000	33,936	64
Community services	31,309			
Total expenditures	337,168	344,067	336,363	7,704
NET CHANGE IN FUND BALANCE	37,129	37,028	29,243	(7,785)
FUND BALANCE, beginning of year	93,984	93,984	93,984	
FUND BALANCE, end of year	\$ 131,113	\$ 131,012	\$ 123,227	\$ (7,785)



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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Outlook Academy,
Strict Discipline Academy
Allegan, Michigan

August 13, 2004

We have audited the financial statements of the governmental activities and the major fund, of Outlook Academy, Strict Discipline Academy as of and for the year ended June 30, 2004, which collectively comprise Outlook Academy's basic financial statements and have issued our report thereon dated August 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Outlook Academy, Strict Discipline Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Outlook Academy, Strict Discipline Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan & Ellis, P.C.



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August 13, 2004

To the Board of Education
Outlook Academy, Strict Discipline Academy
Allegan, Michigan

In planning and performing our audit of the financial statements of Outlook Academy, Strict Discipline Academy for the year ended June 30, 2004, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated August 13, 2004, on the financial statements of Outlook Academy, Strict Discipline Academy.

Prior Year Comments Resolved:

Review the Numerical Sequence of Checks Used

The Supervisor of Finance and Accounting for Allegan County Intermediate School District now reviews the check register for numerical sequence within the check run and between runs before the checks go to the board for signing. The board also views the check register at each board meeting.

Repeat Comments:

Prepare an Initial Cash Receipt Listing

Currently there is no initial cash listing before receipts are given to accounting for deposit. We recommend that management adopt a procedure to have a daily cash receipts listing prepared for all checks received. The person responsible for preparing the list of daily cash receipts should not have access to accounts receivable and general ledger records. This listing should then be reconciled periodically for greater control of the cash receipts process.

Cancelled Checks Returned from Bank

We recommend that the School District have cancelled checks returned with bank statements. Periodic review of these checks by someone other than those involved in check preparation will provide further control over the disbursement function.

Improve Security of Signature Stamp

During our audit we noted that the signature stamp is stored in a safe accessible by all accounting personnel. In order to safeguard the signing of checks, we recommend that the signature stamp be kept in the custody of an authorized check signer.

Improve Segregation of Duties

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Bank statements should be received and reviewed by someone other than employees maintaining cash records. The bank statement should also be periodically compared to the bank reconciliation by someone other than the employee responsible for preparing the reconciliation.

Develop an Accounting Procedures Manual

We noted that the Academy does not have an accounting procedures manual. There may be an assumption that because the Academy's accounting system is relatively simple and accounting personnel have direct and easy access to the business manager when questions arise, there is no need for a manual. However, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

Maintain Accounting Information in a Central Location

Currently, the Academy's accounting records are maintained separately from the supporting documentation. We recommend that supporting documentation and invoices evidencing revenues, expenditures, etc. should be stored in the accounting department. This will aid in controls and allow for further review of entries.

Current Year Comments:

Government Accounting Standards Board (GASB) Statement #40 “Deposit and Investment Risk Disclosures”

Effective June 30, 2005, governmental entities will be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The District should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Financial Information Database (FID) Filing

The Center for Educational Performance and Information (CEPI) is preparing for the implementation of a new upload application/database for financial reporting for school districts in Michigan. This new application/database is called the Financial Information Database (FID). This submission is due November 15, 2004. The EDN/Form B submission process has been eliminated and is no longer available. We strongly recommend your filing be done earlier this year to ensure all changes have been accepted. The penalty for late filing is withholding of your state aid by the state of Michigan.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

To the Board of Education
Outlook Academy, Strict Discipline Academy 5

August 13, 2004

This report is intended solely for the information and use of Outlook Academy, Strict Discipline Academy management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mama Costenisa & Ellis, P.C.



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August 13, 2004

To the Board of Education
Outlook Academy, Strict Discipline Academy
Allegan, Michigan

We have audited the financial statements of Outlook Academy, Strict Discipline Academy for the year ended June 30, 2004, and have issued our report thereon dated August 13, 2004. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 18, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally Accepted Accounting Standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Outlook Academy, Strict Discipline Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Outlook Academy, Strict Discipline Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Outlook Academy, Strict Discipline Academy are described in Note 1 to the financial statements. During 2004, the District adopted the new governmental reporting model as required by Governmental Accounting Standard Board (GASB) Statement No. 34. We noted no transactions entered into by Outlook Academy, Strict Discipline Academy's during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were those relating to unsettled transactions and events as of the date of the financial statements. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Outlook Academy, Strict Discipline Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Outlook Academy, Strict Discipline Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Outlook Academy, Strict Discipline Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Outlook Academy, Strict Discipline Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

August 13, 2004

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of management of Outlook Academy, Strict Discipline Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mammy, Costeniser & Ellis, P.C.